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ACTION EB-11

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 NEA-14 ISO-00 PA-04

PRS-01 USIA-15 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02

COME-00 DODE-00 FPC-01 H-03 INR-10 INT-08 L-03

NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01 SCI-06

SP-03 SS-20 STR-08 TRSE-00 FEA-02 DRC-01 /225 W

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R 030917Z JUL 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 3144

INFO AMEMBASSY ABU DHABI

USINT ALGIERS

AMEMBASSY BANGKOK

AMEMBASSY BEIRUT

USEC BRUSSELS 163

AMEMBASSY CARACAS

AMEMBASSY CAIRO

AMCONSUL DHAHRAN

AMEMBASSY JIDDA

AMEMBASSY KUALA LUMPUR

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY MANILA

OECD PARIS 802

AMEMBASSY PHNOM PENH

AMEMBASSY QUITO

AMEMBASSY SINGAPORE

AMCONSUL SURABAY

AMCONSUL MEDAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY TEHRAN

AMEMBASSY VIENNA

CINCPAC

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C O N F I D E N T I A L JAKARTA 8197

E.O. 11652: GDS

TAGS: ENRG, ID

SUBJ: ENERGY: INDONESIA CRUDE OIL PRICE INCREASE

CINCPAC FOR POLAD

REF: JAKARTA 8033

1. SUMMARY. BASED ON CONVERSATION WITH PERTAMINA OFFICIAL AND PRESS REPORTS, RECENT OIL PRICE INCREASE WAS BASED ON GOI/PERTAMINA BELIEF INDON CRUDE HAD BEEN UNDERPRICED SINCE JANUARY 1 AND NEED TO MAXIMIZE RETURN TO SUPPORT DEVELOPMENT PROGRAMS. INDONESIA INCREASE IN REALIZED PRICE REFLECTS INDONESIA'S RELATIVE INDEPENDENCE VIS-A-VIS OPEC WHICH WAS ALSO DEMONSTRATED IN LATE 1973 BY NON-ADHERENCE TO EMBARGO AND PRODUCTION CUTBACKS.

END SUMMARY

2. DURING CONVERSATION JULY 2, TIRTO UTOMO (DEPUTY CHIEF PERTAMINA'S LEGAL AND FOREIGN MARKETING DIVISION) TOLD EMBOFF THAT \$12.60 PRICE (REFTEL) WAS ESTABLISHED AFTER DISCUSSIONS WITH PRODUCING COMPANIES AND PRINCIPAL JAPANESE MARKETING OUTLETS AND REVIEW OF MARKET ANALYSIS PREPARED BY ARTHUR D. LITTLE CO. (ADL). AFTER MENTIONING PAST PRICE INCREASES, TIRTO SAID RECENT INCREASE WAS DESIGNED 1) TO COMPENSATE FOR PAST FAILURE BY INDONESIA TO MAKE FULL PRICE ADJUSTMENTS (ESPECIALLY ON JANUARY 1, 1974 WHEN PRICE INCREASED TO \$10.80 RATHER THAN \$12.00 AS RECOMMENDED BY CONSULTANTS) AND 2) TO BRING PRICE INDON CRUDE IN LINE WITH COMPARABLE MIDEAST CRUDE, ADDING PREMIUM FOR LOW SULPHUR AND FREIGHT DIFFERENTIAL TO JAPAN.

3. TIRTO REFERRED TO ADL MARKET ANALYSIS WHICH REPORTED INDONESIA COULD CHARGE END-USERS FOLLOWING CONFIDENTIAL

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PRICES (FOB PER BARREL) FOR DIFFERENT TYPE CRUDE
OIL UTILIZATION: A) REFINERIES (JAPAN) - \$13.80;
B) DIRECT BURNING (JAPAN) - \$12.79 - \$13.77;
C) DIRECT BURNING (U.S. WEST COAST) - \$12.28 - \$14.52 AND; D) REFINERIES (SPOT SALES EAST COAST) - \$10.80. AFTER DISCOUNTING U.S. EAST COAST AS "NOT OUR MARKET" AND POINTING OUT ENVIRONMENTAL STANDARDS HAD BEEN LOWERED SOMEWHAT IN U.S., TIRTO

SAID JAPANESE HAVE MAINTAINED ENVIRONMENTAL STANDARDS REINFORCING PREMIUM FOR LOW SULPHUR INDON CRUDE. IN RESPONSE TO EMBOFF QUESTION CONCERNING HOW \$12.60 PRICE WAS CHOSEN, TIRTO SIAD MANAGER OF FAR EAST OIL COMPANY (JOINT PERTAMINA-JAPANESE TOKYO BASED MARKETING COMPANY) REPORTED THAT "IF INDONESIA PRICE INCREASE DID NOT EXCEED \$12.70, I WILL RETURN TO TOKYO AS A HERO." HE SAID PERTAMINA AND COMPANIES DECIDED ON SLIGHTLY LOWER FIGURE "WHICH SHOULD PROVIDE MARKETING, POWER GENERATION AND REFINERY COMPANIES WITH A REASONABLE PROFIT MARGIN." TIRTO INDICATED THAT OF OIL PRODUCING COMPANIES PARTICIPATING IN TALKS, CALTEX WAS RELUCTANT TO ACCEPT 90 CENT PRICE INCREASE, BUT AGREED TO GO ALONG.

4. RELATING PRICE INCREASES TO OPEC, TIRTO SPECULATED THAT "OPEC WILL EITHER BECOME STRONGER OR WEAKER IN FUTURE, IT CANNOT STAY THE SAME." HE ADDED, "IF SAUDI ARABIA DECIDES TO PULL OUT, REDUCE PRICES AND INCREASE PRODUCTION, WHICH IS NOT LIKELY, OTHER OPEC COUNTRIES WILL PROBABLY DECIDE TO REDUCE PRODUCTION TO MAINTAIN PRESENT PRICE LEVELS." HE CHARACTERIZED OPEC AS A TRUE CARTEL WHICH WILL ACT TO CONTROL FUTURE PRICES AND LEVELS OF PRODUCTION. TIRTO DESCRIBED PROJECT INDEPENDENCE AS BASICALLY A POLITICAL PROGRAM DESIGNED TO MEET U.S. NATIONAL SECURITY OBJECTIVES. HE SAID HE HAD READ TWO RECENT OIL COMPANY REPORTS THAT PREDICTED U.S. WOULD BE IMPORTING AT LEAST TWO AND MAYBE AS MUCH AS FIVE MILLION B/D IN 1980 REGARDLESS OF CRASH ENERGY DEVELOPMENT PROGRAMS.

5. COMMENTING ON PRICE INCREASE, WIJARSO (GOI DIRECTOR FOR OIL AND GAS) REPORTEDLY TOLD PRESS JULY 2:
1) HE DID NOT UNDERSTAND WHY JAPAN AGREED TO PAY CHINA
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\$14.00 BARREL WHEN INDONESIAN OIL WAS SELLING FOR \$11.70 AND 2) REFERRING TO RECENT OPEC CONFERENCE AGREEMENT NOT TO CHANGE POSTED PRICE BUT RATHER TO INCREASE ROYALTIES TWO PERCENT, HE SAID "INDONESIA HAS NOTHING TO DO WITH ROYALTIES AND POSTED PRICE. THE REALIZED PRICES OF INDONESIA OIL EXPORTS IS DETERMINED BY THE INTERNATIONAL OIL MARKET."

6. COMMENT: AS WIJARSO'S COMMENTS INDICATE, UNLIKE MANY OTHER OIL PRODUCING COUNTRIES INDONESIA ADHERES TO A MARKET OR REALIZED PRICING POLICY, RATHER THAN A POSTED PRICE. HISTORICALLY, JAPAN HAS BEEN INDONESIA'S PRINCIPAL MARKET ALTHOUGH EXPORTS TO THE U.S. HAVE INCREASED SUBSTANTIALLY IN THE LAST TWO YEARS. IN 1973, ABOUT 70 PERCENT OF INDONEISA'S EXPORTS (723,211 B/D) WENT TO

JAPAN (ACCOUNTING FOR ABOUT 15 PERCENT OF TOTAL JAPANESE CRUDE OIL IMPORTS) WHILE ABOUT 20 PERCENT (207,796 B/D) WAS SHIPPED TO THE U.S. (ABOUT FIVE PERCENT OF U.S. IMPORTS). IN ADDITION, ABOUT FIVE PERCENT OF TOTAL INDONESIAN EXPORTS WERE SHIPPED TO TRINIDAD, MOST OF WHICH DESTINED FOR THE U.S. IN PRODUCT FORMS.

7. BOTH SUBSTANCE AND TENOR OF TIRTO'S (AND WIJARSO'S) COMMENTS POINT UP CLEARLY THAT INDONESIA PLANS TO PURSUE POLICIES INDEPENDENT OF OPEC AS WAS CASE WHEN INDONESIA REFUSED TO PARTICIPATE IN ARAB PRODUCTION CUTBACK AND EMBARGO LAST YEAR. AS FIFTH MOST POPULOUS COUNTRY IN WORLD AND PERHAPS POOREST OF OIL EXPORTERS, RECENT PRICE INCREASE INDICATES GOI PLANS TO MAXIMIZE RETURN FROM OIL SALES TO SUPPORT DEVELOPMENT PROGRAMS.
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